

OPEN MEETING AGENDA ITEM

ORIGINAL



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ARIZONA CORPORATION COMMISSION
CORP COMMISSION
DOCKET CONTROL

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2012 MAR 14 PM 2 22

March 15, 2012

TO: ALL PARTIES OF RECORD

RE: IN THE MATTER OF THE APPLICATION OF INDIADA WATER COMPANY, INC.
FOR APPROVAL OF A PERMANENT INCREASE IN ITS WATER RATES, ET. AL..

DOCKET NOS. W-02031A-10-0168, W-02327A-10-0169, W-01906A-10-0170, W-
01906A-10-0171, W-02031A-10-0171, W-02327A-10-0171, W-01906A-10-0183, W-
02031A-10-0184, and W-02327A-10-0185

The Recommended Opinion and Order in the above-captioned matter that was mailed to you on March 12, 2012, contains the following typographical errors:

- Page 15, line 25: Line was inadvertently deleted. The clause "would result in an annual management fee savings of \$11,691." has been added.
- Page 15, footnote 45: Footnote was inadvertently deleted. Footnote 45 stating "Rebuttal Testimony of Sonn Rowell, page 16, Consolidated Company Rebuttal Schedule C-2b." has been added.
- Page 17, line 1: Line was inadvertently repeated. The clause "economies of scale, lessen rate case expense and mitigate price shock." and the associated Footnote 50 have been deleted.
- Page 27, line 22.5: The Emergency Interim Surcharge for ARWC should be \$5.58 and the Emergency Interim Surcharge for IWC should be \$7.83. The corrections have been made.

The original Recommended Opinion and Order will reflect these changes.

Arizona Corporation Commission

DOCKETED

MAR 14 2012



Sincerely Yours,

Belinda A. Martin
Administrative Law Judge

SERVICE LIST FOR:

BOB B. WATKINS DBA EAST SLOPE WATER
COMPANY, ANTELOPE RUN WATER COMPANY,
INDIADA WATER COMPANY, INC.

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0184, W-02327A-10-0185

Steve Wene, Esq.
MOYES SELLERS & HENDRICKS, LTD
1850 North Central Avenue, Suite 1100
Phoenix, AZ 85004

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Steven M. Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

| | <u>Applicants</u> ⁴⁰ | <u>Staff</u> ⁴¹ |
|------------|---------------------------------|----------------------------|
| ESWC | \$16.39 | \$12.65 |
| ARWC | \$35.69 | \$29.75 |
| IWC | \$32.28 | \$26.90 |
| East Slope | \$22.63 | \$18.70 |

83. The base rates proposed by Staff and the Applicants coupled with the WIFA Surcharge result in increases in the average monthly water bill for a customer on a 5/8" x 3/4" meter for each stand-alone company and the consolidated company as follows:

| | | | <u>Applicants</u> ⁴² | | <u>Staff</u> ⁴³ | |
|------|-----------------------|--------------------------|---------------------------------|------------------------|----------------------------|------------------------|
| | <u>Avg. Gal. Used</u> | <u>Current Avg. Bill</u> | <u>Stand Alone</u> | <u>Consol. Company</u> | <u>Stand Alone</u> | <u>Consol. Company</u> |
| ESWC | 9,137 | \$21.20 | \$43.29 | \$51.13 | \$36.27 | \$43.98 |
| ARWC | 11,839 | \$23.34 | \$74.88 | \$59.18 | \$68.02 | \$51.28 |
| IWC | 8,731 | \$42.06 | \$76.70 | \$50.35 | \$70.89 | \$43.29 |

DISCUSSION

The Requested Consolidation

84. The Applicants propose to consolidate the operations of the three utilities, with ESWC becoming the sole surviving public service corporation. The resultant utility would be a Class 'C' public service corporation with approximately 1,050 customers and would provide service under a single set of tariffs. Applicants assert that the water systems are in the same general area around Sierra Vista, and that consolidation will increase operational efficiencies and reduced costs. According to Bonnie O'Connor, who is the president of SUM, one such savings will be a reduction in SUM's management fees. SUM's rates are based on the number of connections; the more connections, the lower SUM's per connection charge.⁴⁴ According to Ms. Rowell, consolidation would result in an annual management fee savings of \$11,691.⁴⁵

⁴⁰ Updated Rejoinder Testimony of Sonn Rowell, Attachments 5-8.

⁴¹ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Schedules JMM-21.

⁴² Rejoinder Testimony of Sonn Rowell, Attachments 1-4, Rejoinder Schedules H-3 and Updated Rejoinder Testimony of Sonn Rowell, Attachments 5-8.

⁴³ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Schedules JMM-24.

⁴⁴ Transcript of Hearing at pages 47-48. ("Tr. at ____".)

⁴⁵ Rebuttal Testimony of Sonn Rowell, page 16, Consolidated Company Rebuttal Schedule C-2b.

85. The Applicants also note that ARWC and IWC are adjacent to each other and there is currently a temporary interconnection between the two systems.⁴⁶ By consolidating the companies, the capital improvement construction costs will be \$14,606 less than the total costs for each individual system because the construction of a permanent interconnection will allow ARWC and IWC to share certain plant components.⁴⁷

86. If the Companies are consolidated, using the Applicants' proposed base rates the average water bill for customers on a 5/8-inch x 3/4-inch meter would change as follows:⁴⁸

| | <u>Avg. Gal. Used</u> | <u>Current Avg. Bill</u> | <u>Stand Alone</u> | <u>Incr. Amount</u> | <u>Percent Increase</u> | <u>Consol. Co.</u> | <u>Incr./ [Decr.]</u> | <u>Percent Increase</u> |
|------|---------------------------|------------------------------|------------------------|-------------------------|-----------------------------|------------------------|---------------------------|-----------------------------|
| ESWC | 9,137 | \$21.20 | \$26.90 | \$5.70 | 26.9 % | \$28.50 | \$7.30 | 34.4% |
| ARWC | 11,839 | \$23.34 | \$39.19 | \$15.85 | 67.9% | \$36.55 | \$13.21 | 56.6% |
| IWC | 8,731 | \$42.06 | \$44.42 | \$2.36 | 5.6% | \$27.72 | [\$14.34] | [34.1%] |

87. Under the Applicants' proposed consolidated base rates, ARWC would see a lower rate increase and IWC would see a rate decrease, but ESWC customers would see a \$1.60, or 5.9 percent, higher rate increase than they would on a stand-alone basis. The Applicants believe that although ESWC customers will experience a slightly larger increase, consolidation will benefit ESWC customers in the long-run by allowing future capital expenditures to be spread over a larger customer base and administrative savings resulting from streamlined operations would be reflected in future rates.⁴⁹

88. Staff asserts that when and where it is technically and financially feasible, the Commission should consider consolidation. Staff believes that consolidation is in the public interest when it promotes public health and safety; when systems are in close proximity such that they can be interconnected or allow customers to recognize a logical connection; and when it would result in economies of scale, lessen rate case expense and mitigate price shock.⁵⁰

⁴⁶ Operations witness Keith Dojaquez noted that interconnection with ESWC is not possible because ESWC is located approximately one mile from ARWC and IWC and Pueblo del Sol Water Company and Bella Vista Water Company divide ESWC from ARWC and IWC. (Tr. at 64.)

⁴⁷ Tr. at 80.

⁴⁸ Rejoinder Testimony of Sonn Rowell, Attachments 1-4, Rejoinder Schedules H-3.

⁴⁹ Tr. at 170-172.

⁵⁰ Direct Testimony of Jeffrey M. Michlik, pages 5-8.

89. Staff supports consolidation of the Companies and notes this will allow the Applicants to take advantage of economies of scale, which is especially critical for small water companies such as these that struggle to remain viable.⁵¹ Staff notes that the systems are owned by Mr. Watkins and his family, and day-to-day operations for the three utilities are handled by SUM. The systems are in the same general area and ARWC and IWC share a temporary interconnection, which will be made permanent as part of the capital improvements.⁵²

90. If the Companies are consolidated, using Staff's base rates, the average water bill for customers on a 5/8-inch x 3/4-inch meter would change as follows:⁵³

| | <u>Avg. Gal. Used</u> | <u>Current Avg. Bill</u> | <u>Stand Alone</u> | <u>Incr. Amount</u> | <u>Percent Increase</u> | <u>Consol. Co.</u> | <u>Incr./ [Decr.]</u> | <u>Percent Increase</u> |
|------|---------------------------|------------------------------|------------------------|-------------------------|-----------------------------|------------------------|---------------------------|-----------------------------|
| ESWC | 9,137 | \$21.20 | \$23.62 | \$2.42 | 11.4 % | \$25.28 | \$4.08 | 19.2% |
| ARWC | 11,839 | \$23.34 | \$38.27 | \$14.93 | 63.9% | \$32.58 | \$9.24 | 39.6% |
| IWC | 8,731 | \$42.06 | \$43.99 | \$1.93 | 4.6% | \$24.59 | [\$17.47] | [41.5%] |

91. The benefits of consolidation for the two smaller systems, ARWC and IWC, under either the Applicants' or Staff's proposed base rates, are clear. Through consolidation, the costs of the system improvements are spread over a larger customer base, and ARWC customers would experience a lower rate increase and IWC ratepayers would receive a rate decrease. Staff agrees with the Applicants that the potential for long-term benefits derived from consolidation outweighs the initial cost of consolidation for ESWC's customers. Staff believes in this case that consolidation is in the public interest.⁵⁴

92. We agree with the parties that the circumstances in this matter support consolidation of operations and rates, and we find that consolidation of the Companies is in the public interest. We approve the consolidation of operations and rates and the transfer of ARWC's and IWC's assets and CC&Ns to ESWC.

93. Staff recommends that, even though ESWC, ARWC and IWC will be consolidated,

⁵¹ *Id.*, pages 5-6; Tr. at 279.

⁵² Tr. at 279-280.

⁵³ Supplemental Surrebuttal Testimony of Jeffrey M. Michlik, Updated Schedules JMM-23.

⁵⁴ Tr. at 280, 286.

based on rate of return on rate base and Staff's calculations supporting the sufficiency of its recommended revenues. We find that Staff's proposed 10.0 percent rate of return on rate base is reasonable, entitling East Slope to a gross revenue increase of \$112,568, or 39.63 percent.

| | |
|-----------------------------|------------|
| FVRB | \$263,029 |
| Adjusted Operating Income | \$(59,073) |
| Required Rate of Return | 10.00% |
| Required Operating Income | \$26,303 |
| Operating Income Deficiency | \$85,376 |
| Gross Rev. Conv. Factor | 1.3185 |
| Gross Revenue Increase | \$112,568 |
| Adjusted Test Year Revenue | \$284,083 |
| Approved Annual Revenue | \$396,651 |
| Percentage Revenue Increase | 39.63% |

Rate Design

131. The Companies' current rates and charges are as follows:

MONTHLY USAGE CHARGE:

All Classes

| | <u>ESWC</u> | <u>ARWC</u> | <u>IWC</u> |
|-------------------|-------------|-------------|------------|
| 5/8" x 3/4" Meter | \$9.00 | \$11.50 | \$15.00 |
| 3/4" Meter | 9.00 | 17.25 | 15.00 |
| 1" Meter | 15.00 | 28.75 | 15.00 |
| 1-1/2" Meter | 25.00 | 57.50 | 15.00 |
| 2" Meter | 50.00 | 92.00 | 15.00 |
| 3" Meter | N/A | 172.50 | 15.00 |
| 4" Meter | N/A | 287.50 | 15.00 |
| 6" Meter | N/A | 575.00 | 15.00 |

Gallons Included in Usage Charge:

| | | |
|-------|---|-------|
| 2,000 | 0 | 1,000 |
|-------|---|-------|

EMERGENCY INTERIM SURCHARGE:

| | | |
|--------|--------|--------|
| \$7.60 | \$5.58 | \$7.83 |
|--------|--------|--------|

COMMODITY CHARGE:

Per 1,000 Gallons

All Classes

| | | | |
|--------------------------------|--------|--------|--------|
| 0 gallons to 1,000 gallons | N/A | \$1.00 | N/A |
| 1,001 gallons to 2,000 gallons | N/A | 1.00 | \$3.50 |
| Over 2,000 gallons | \$1.71 | 1.00 | 3.50 |